

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AGR-10 CEA-01 CIAE-00 COME-00 DODE-00

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/105 W

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 3830

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

UNCLAS LIMA 1068

E.O. 11652: N/A

TAGS: ECIN, EIND

SUBJECT: ANDEAN PACT: PETROCHEMICAL INDUSTRY SECTORIAL PROGRAM

REF: (A) LIMA A-72 (B) LIMA A-147

1. THE NEGOTIATION OF THE ANDEAN PETROCHEMICAL PROGRAM HAS SUFFERED A SERIOUS SETBACK. AN AD HOC INTERGOVERNMENTAL COMMITTEE MEETING TERMINATED FEBRUARY 1 WITH ACCUSATIONS AGAINST COLOMBIA AND VENEZUELA OF OBSTRUCTING THE PROGRAM. THE COMMISSION, WHICH IS THE HIGHEST POLICY MAKING ORGAN, HAS THIS ISSUE ON THE AGENDA FOR A MEETING SCHEDULED FEBRUARY 11.

2. BACKGROUND: A PROGRAM PROPOSAL FOR THIS INDUSTRY WAS FIRST PRESENTED IN JULY 1971. A BUYERS MARKET PREVAILED AT THAT TIME AND THE ESTABLISHMENT OF ANDEAN UNCLASSIFIED

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PLANTS WAS CONSIDERED FEASIBLE ONLY ON THE BASIS OF

HIGHLY PROTECTED IMPORT SUBSTITUTION. THE PROPOSAL WAS TURNED DOWN.

3. THE CURRENT PROPOSAL (REFAIR A) WAS PRESENTED BY THE JUNTA IN MARCH 1974 AFTER VENEZUELA'S ENTRY INTO THE PACT AND AFTER THE DEVELOPMENT OF THE ENERGY CRISIS. THE DEMAND FOR PETROCHEMICALS WAS HIGH. GIVEN THE AVAILABILITY OF RAW MATERIALS IN MOST ANDEAN COUNTRIES, THE PROPOSAL CALLED FOR PLANTS WITH SUFFICIENT ECONOMIES OF SCALE TO MAKE THE INTERNATIONALLY COMPETITIVE. HOWEVER, THE JUNTA DID NOT ABANDON CERTAIN INFANT INDUSTRY INCENTIVES AND IMPORT SUBSTITUTION OBJECTIVES.

4. BY FEBRUARY 1975 THE OUTLOOK HAS BECOME LESS PROMISING. HOWEVER, FOR ENTIRELY DIFFERENT REASONS COLOMBIA AND VENEZUELA WANT TO CONTINUE ON AN "OPEN MODEL" COURSE, CLOSELY LINKED TO WORLD MARKET COMPETITIVE CONDITIONS. THE REMAINING COUNTRIES PREFER A MORE STRUCTURED, DETAILED ANDEAN DEVELOPMENT PLAN.

5. VENEZUELA ASPIRES TO BECOME A LARGE-SCALE PRODUCER OF PETROCHEMICALS, NOT LIMITED IN ANY WAY BY ANDEAN PACT PLANT ASSIGNMENTS. COLOMBIA, ON THE OTHER HAND, DOES NOT WANT TO USE ITS SCARCE FINANCIAL RESOURCES IN CAPITAL-INTENSIVE INDUSTRIES. WITH THE EXCEPTION OF RAW MATERIALS FOR SYNTHETIC FIBERS FOR ITS TEXTILE INDUSTRY, IT WOULD JUST AS SOON BUY PETROCHEMICALS AT WORLD MARKET PRICES FROM NEIGHBORING VENEZUELA OR FROM ANY OTHER SOURCE. BOTH COUNTRIES, HOWEVER, HAVE VESTED ECONOMIC AND POLITICAL INTERESTS IN AVOIDING A CRISIS IN ANDEAN INTEGRATION.

6. THE POSITIONS OF COLOMBIA AND VENEZUELA HAD ALREADY BEEN EXPRESSED AT A MEETING IN JUNE 1974 (REFAIR B). HOWEVER, THEY HAD BEEN CONSIDERED NEGOTIABLE. THE MOST IMPORTANT ISSUE IS VENEZUELA'S INSISTENCE ON THE RIGHT TO BUILD ANY PLANT IT WANTS, AS LONG AS IT GIVES ADEQUATE ASSURANCES THAT PLANTS NOT ASSIGNED TO IT UNDER THE ANDEAN PROGRAM WOULD PRODUCE EXCLUSIVELY FOR NON-ANDEAN MARKETS. ALTHOUGH PROBABLY UNINTENDED, SUCH AN ARRANGEMENT

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MENT COULD BE VIEWED AS AN INSURANCE AGAINST ANDEAN PACT FAILURE.

7. THE SECOND VENEZUELAN CONDITION, BASED ON CERTAIN LEGAL ARGUMENTS, IS THE EXCLUSION OF ITEMS ON THE LAFTA COMMON LIST FROM THE ASSIGNMENT PROCESS. ONE OF THE PRODUCTS INVOLVED WOULD BE CAPROLACTAM, WHICH IS CURRENTLY PRODUCED IN COLOMBIA. THIS IS ONE INSTANCE IN WHICH THE

STATED OBJECTIVES OF COLOMBIA AND VENEZUELA DO NOT COINCIDE.

8. THE CONDITION ADVANCED BY COLOMBIA IS THAT SIXTEEN IMPORTANT PRODUCTS, INCLUDING LOW-DENSITY POLYETHYLENE, SUSPENSION GRADE PCV AND POLYSTYRENE, BE EXCLUDED FROM THE ASSIGNMENT PROCESS. THESE WOULD BECOME "UNALLOCATED PRODUCTS" WITHIN THE PROGRAM, SUBJECT TO AN AUTOMATIC REDUCTION OF INTRA-ANDEAN TARIFFS AND THE ENFORCEMENT OF THE RESPECTIVE COMMON EXTERNAL TARIFF. (NOTE: ON FEB 4 COLOMBIA INFORMED THE JUNTA THAT ITS POSITION WILL NOT CONSTITUTE AN OBSTACLE TO FURTHER DISCUSSION, IF THE OTHER FUNDAMENTAL PROBLEMS OF THE PROGRAM CAN BE RESOLVED.)

9. ECUADOR SHARES SOME OF THE STRATEGY PRINCIPLES OF COLOMBIA AND VENEZUELA. IT ADVOCATED THAT COMMON EXTERNAL TARIFFS BE LOWERED TO 15 PERCENT AD VALOREM FOR BASIC PETROCHEMICAL COMMODITIES AND TO 25 PERCENT FOR INTERMEDIATE AND FINAL PRODUCTS. AS CURRENTLY STATED IN THE PROPOSAL, THE COMMON EXTERNAL TARIFF WOULD RANGE FROM 25 TO 40 PERCENT, WITH MOST PRODUCTS SLATED FOR A 35 PERCENT PROTECTION. THE ECUADOREAN POSITION CONSEQUENTLY SUPPORTS COLOMBIA'S PLEADING FOR "GREATER EFFICIENCY TO ELIMINATE THE DANGER OF IMPORT SUBSTITUTION AT HIGH COSTS."

10. THE CONDITIONS PRESENTED BY COLOMBIA AND VENEZUELA ARE THE ONLY MAJOR PROBLEMS. COMPROMISE SOLUTIONS COULD BE EASILY FOUND TO THE FOLLOWING NEGOTIATING POSITIONS. ALL COUNTRIES WANT MORE PRODUCTS ASSIGNED TO THEM; BOLIVIA INSISTS THAT FERTILIZERS BE INCLUDED IN THE PETROCHEMICAL PROGRAM, PERU WANTS THE COMMON EXTERNAL TARIFF REINFORCED BY ANTI-DUMPING PROVISIONS, AND THE SIGNATORIES TO LAFTA COMPLEMENTATION AGREEMENT NO. 6 (BOLIVIA, CHILE, COLOMBIA AND PERU) WANT THE RESPECTIVE ALLOCATIONS INCLUDED IN THE PETROCHEMICAL PROGRAM. IN ADDITION, BOLIVIA WANTS FURTHER SPECIAL CONSIDERATIONS AS A LESS DEVELOPED COUNTRY.

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11. A STEP THAT COULD SMOOTH THE WAY TOWARD A CONSENSUS WOULD BE MULTI-NATIONAL FINANCING AND MARKETING ARRANGEMENTS. A VENEZUELAN PARTICIPATION IN A BOLIVIAN OR CHILEAN VENTURE, FOR EXAMPE, COULD MAKE THE ANDEAN PROGRAM MORE ATTRACTIVE AND THE VENEZUELAN CONDITIONS MORE ACCEPTABLE.

12. A QUESTION THAT HAS BEEN RAISED IS THE DEGREE TO WHICH THE INDIVIDUAL COUNTRIES MAY BE READY FOR AN "OPEN MODEL" DEVELOPMENT STRATEGY. NATIONAL AND ANDEAN DEVELOP-

MENT PLANNING WOULD HAVE TO BECOME MORE FLEXIBLE AND MORE SENSITIVE TO DEVELOPMENTS IN THE INDUSTRY. TO BUILD PETROCHEMICAL PLANTS LARGE ENOUGH AND ADVANCED ENOUGH TO BE INTERNATIONALLY COMPETITIVE WOULD NECESSITATE AN INCREASING INTEGRATION INTO THE WORLD ECONOMY.

13. THE NEGOTIATIONS TO DATE HAVE BEEN CARRIED OUT IN CAMERA. NO PRESS RELEASES HAVE BEEN ISSUED. "EL COMERCIO" OF FEBRUARY 4 HEADLINED A FIRST-PAGE SUMMARY OF THE MARCH 1974 JUNTA PROPOSAL, WITHOUT ANY REFERENCE TO THE COMPLICATIONS IN THE NEGOTIATIONS.  
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